

# AG Strategies

Agriculture Business Strategies

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## ***Direct Marketing for Rural Producers***

*The purpose of this factsheet series is to help producers and processors understand the key elements needed to manage a business. This factsheet discusses some of the basic components and strategies of direct marketing agricultural products and services.*

**A**ny time producers sell their products or services directly to the consumer, they are engaged in direct marketing. Successful direct marketing depends on providing quality products in a clean and customer-friendly environment. In our highly urbanized society, direct marketing provides a link between urban consumers and rural food producers. This supports sustainable communities.

Today, most food moves from the farm gate to the consumer through a highly efficient system that takes advantage of economies of scale and specialization to keep processing and distribution costs low. Most farmers devote their time to what they know best, planting, growing and harvesting food, and leave the processing and marketing to agri-business. However, selling directly to consumers remains popular with some producers.

Several reasons account for this continued interest in direct farm marketing. One is dissatisfaction with low farm commodity prices. The farm price is often only a fraction of the retail food price. Prices for produce sold directly to consumers can be substantially higher than typical wholesale prices.

### **Trends affecting direct marketing**

Increased interest in food safety, the environment and alternative agriculture support the growth of direct sales. A growing number of health-conscious consumers are willing to search out and pay extra for foods they believe to be fresh, nutritious and wholesome. Regional foods and ingredients are also in demand. Dual income families have more spending power, less time and are less likely to can or preserve food products. Changing demographics imply a larger demand for pre-picked, value-added, single-service products and produce.

According to the study, *Farmers' Markets in Alberta: A Direct Channel of Distribution*, consumers are looking for freshness and product quality. They also visit farmers' markets looking for specialty items including organic and ethnic products, to enjoy the social atmosphere and to support local farmers and the community.

Direct marketing contributes to the rural economy by providing alternative marketing channels. Less and less of our population lives on or even visits a farm. By adding a recreational component to food consumption, many direct marketing enterprises draw urban people to farm communities where they experience a farm atmosphere and spend additional dollars on food, specialty items and other services.

## Types of direct marketing

Many direct marketing options are available to growers. Seasonal roadside stands or year-round roadside markets, u-pick or pick-your-own, community supported agriculture and farmers' markets are all direct to consumer marketing options. Gift basket service, mail order sales, entertainment agriculture and direct sales to restaurants also fit into this category.

A brief overview of each of these options is presented below.

### Roadside stands or roadside markets

The roadside stand is usually located on the farm and sells farm fresh products directly to consumers. It's seasonal in nature, operating only when produce is available. A roadside farm market is a larger, permanent version of the roadside stand that usually operate year-round. The roadside market may be located on the farm or on a nearby site with better access and greater traffic volume.

**Roadside stands and markets offer several advantages:**

- produce goes directly from harvest to market without conventional marketing costs
- opportunity for expansion from a roadside stand to a roadside market is relatively simple
- family or local employment opportunities

**Disadvantages include:**

- roadside markets have higher operating costs, including facility costs
- possible zoning and planning restrictions

### U-pick, pick-your-own or customer harvest

In u-pick, pick-your-own or customer harvest operations, the customer comes to the farm, does the harvesting, pays cash for the produce harvested and transports it home. This type of operation is a natural addition to a roadside stand. It lowers the grower's costs of harvesting, sorting, packaging and marketing. The customer buys produce at peak freshness while enjoying a pleasant farm experience. Operations located close to urban centres are particularly popular.

**U-pick operations offer several advantages:**

- reduced need for seasonal harvest labor
- elimination of transportation, processing, packaging and storage costs
- inexpensive, word of mouth advertising once a customer base is established

**Disadvantages include:**

- risk of customer damage to produce or plants
- long hours of operation throughout the harvest season
- bad weather may deter customers during the season

### Community supported agriculture (CSA)

Community Supported Agriculture or subscription farming consists of a partnership between consumers and farmers in which consumers contract or buy "shares" in farm products in advance and farmers commit to supply a range of products over the entire season. Often customers have the option to participate in planting, cultivation and harvest. The arrangement can be initiated by the farmer or a group of consumers.

**CSA offers several advantages:**

- risk of crop failure is shared between customers and farmer
- guaranteed market as crop is pre-sold before growing season starts
- working capital is created at planting time
- prices are close to retail if farmer makes deliveries to central drop off point or consumer's home
- reduced labor costs if customers help with planting, harvesting and delivery
- crop waste is reduced through market driven production

**Disadvantages include:**

- increased management requirements include yield calculations, co-ordination of deliveries, detailed production and marketing records
- increased time necessary to identify and develop customer base
- more time spent educating and communicating with customers



## Farmers' markets

Farmers' markets are probably the oldest and most common form of marketing direct to the consumer. The markets are usually situated in a central location and provide a place where producers and consumers can meet to exchange products that are made, baked or grown by the seller. Farmers' market stall holders usually share market insurance, advertising and other marketing costs. However, product liability insurance is still required. These markets often serve as business incubators or test markets for start-up processors.

### Farmers' markets offer several advantages:

- minimal marketing, packaging, advertising and promotion costs
- prices that are higher than wholesale
- established market base

### Disadvantages include:

- need to transport products to market
- limited customer volume per site and potential need for additional market outlets
- variable customer base due to weather conditions
- must follow market rules and regulations including stall rental requirements, market hours, space and product limitations, packaging and labeling regulations

## Common features

The previous four direct marketing methods have some common advantages and disadvantages.

### The advantages include:

- immediate cash payment
- a test market that allows farmers to start small and learn marketing skills as they go
- one-on-one customer contact provides immediate feedback on product quality, quantity, and selection
- personal customer interaction provides the opportunity for customer education and promotion of the total farm experience

### The disadvantages are:

- washroom and parking requirements
- increased costs for sales and supervisory labor
- need clearly defined rules, regulations and obligations for producer and consumers
- substantial time commitment to marketing because of one-on-one customer interaction
- increased liability insurance costs

## Gift baskets and mail order

This method of marketing could be a sideline to an on-farm market, or operate on its own. Since both gift basket and mail order sales are built on repeat business, it may take years to build a substantial income. Start slowly by offering gift basket or mail order sales in addition to existing market outlets. Gift baskets work best with products that can be attractively displayed. Often price isn't as important as quality and uniqueness. Mail order items are usually products with limited perishability that can be easily packaged and shipped. Both options require high quality products, packaging and customer service.

An alternative to developing your own mail order business is to sell your product through the catalogues of other mail order companies. Products are sold at a discount, but you avoid the costs and risks associated with starting your own mail order business. Mail order gift packages can also be offered to corporations or hotels for use with their clients or employees.

### Gift baskets and mail order sales offer several advantages:

- even remote, rural locations can have access to a national marketplace
- premium price is the norm as prices range from one-and-one-half to several times wholesale or even retail prices for the same product (product must support at least 100 per cent mark up)
- low capital investment

### Disadvantages include:

- significant time required to build client base
- seasonal, with Christmas usually a peak time
- special packaging, shipping, advertising and labor costs
- computerized mailing list and customer purchase tracking capability needed
- products must be light weight, ship well and have a long shelf life

## Entertainment agriculture or rural recreation farming

There's gold to be discovered in old fashioned country fun. Busy urbanites are seeking places to go for a weekend family outing. Farmers are capitalizing on this by providing opportunities for people to experience farm life. They are offering hay rides, cross country skiing on farm trails, skating on a pond or creek, a petting zoo for the kids, school tours, special event days or seasonal festivals.

Turning your farm into a rural attraction isn't something that happens overnight. Start with simple things, like adding a shaded picnic area to your roadside stand. Many products and enterprises such as bakeries or restaurants, contests, hay rides, farm vacations and crafts can be added to roadside markets or pick-your-own operations to attract customers. Be prepared to put lots of time and energy into entertaining your customers. Part of the attraction for your customers is meeting the farmer. So, if you don't like people or aren't a natural showman, think twice before getting involved in entertainment agriculture.

**Entertainment farming offers several advantages:**

- opportunity for additional profit
- opportunity to use the farm as an education centre
- access to a large urban market
- once a positive company image is established, advertising costs are minimal as most is done through word of mouth

**Disadvantages include:**

- higher capital costs
- additional labor costs including a customer service focused staff training program
- increased insurance coverage, licenses and permits
- initial promotional and marketing costs
- large time commitment
- constant upgrading and changing of activities, programs and facilities

## **Direct sales to restaurants**

Chefs are increasingly willing to buy direct from producers in order to find unique products or items that are difficult to purchase from distributors. Although some restaurants buy directly from growers hoping to get a lower price, chefs working for high-end restaurants are often willing to pay top dollar for hard-to-find items. For a top quality producer, prices may be high enough to justify the expense of delivering products directly to the restaurant.

Products must be of top quality, fresh and available as needed. Specialty products, which aren't available in wholesale markets, are top sellers. Chefs also consider price, consistency and reliability of supply and delivery.

**Selling direct to restaurants has several advantages:**

- steady market throughout the production season
- consistent price, often 10 per cent or more over wholesale
- personal contact with buyer
- flexibility in products grown
- potential of "brand name" recognition of locally grown produce

**Disadvantages include:**

- most practical if near large urban centre or tourist area
- frequent delivery required due to limited storage space in restaurant kitchens
- wide variety and quantity of products needed to meet market demand
- product liability insurance premiums may outweigh the profits
- higher labor costs with some products



# Checklist: Have you got what it takes to be a direct marketer?

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## Personal Qualifications:

- ☐ I am friendly and outgoing.
- ☐ I like to meet people.
- ☐ I welcome visitors to my farm and am happy to answer their questions.
- ☐ I have the support and encouragement of my family.
- ☐ I am willing to operate a market many hours each day, seven days a week during the peak season.
- ☐ I'm not afraid to take risks.
- ☐ I take pride in my product and I'm not shy about saying so.
- ☐ I'm flexible, independent, creative and thrifty.

## Production Capabilities:

- ☐ I have the necessary knowledge about production methods and techniques.
- ☐ I know who my target clients are and what they want.
- ☐ I will be able to supply the variety, quantity and quality of products my customers want.

## Merchandising and Marketing Savvy:

- ☐ I know how to develop a marketing strategy.
- ☐ I understand my target market and utilize appropriate marketing tools (i.e. business cards, customer lists, public relations, cross promotions, networking).
- ☐ I have a working knowledge of retail selling.
- ☐ I understand the principles of merchandising.
- ☐ There is demand for the products I plan to sell.
- ☐ I have a unique product.
- ☐ There is room for another direct market outlet in my area.
- ☐ I can work with neighboring farms to co-operatively market our products and our region.

## Logistics:

- ☐ I have the space and location for a direct marketing operation.
- ☐ There's a good place to put a marketing facility on my farm.
- ☐ I have adequate space for parking.
- ☐ There is convenient access to the farm.
- ☐ There is sufficient traffic passing the farm to generate traffic.

## Business Factors:

- ☐ I have sufficient capital available to construct facilities and acquire equipment.
- ☐ I have completed a feasibility assessment and a projected cashflow.
- ☐ Direct marketing activities complement my farm production possibilities.
- ☐ I have good financial management practices (pricing, budgeting, cash flow, record keeping).

## Other Considerations:

- ☐ I utilize appealing display techniques to enhance my image at markets.
- ☐ I set prices to cover costs and make a profit, but consider market demand and competitor prices.
- ☐ I offer good customer services to obtain repeat business.
- ☐ I maintain good quality control measures for products sold.
- ☐ I set aside adequate time to hire and train friendly, knowledgeable staff.

# Critical success factors for direct marketers

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## Site location:

- ☐ visible from a distance
- ☐ easily accessible for the traveling customer
- ☐ within a reasonable distance from market and other direct marketing operators
- ☐ safe entrance and exit
- ☐ ample, accessible, high and dry parking
- ☐ customer friendly site layout

## Signage:

- ☐ directional signs on major highways and at key intersections
- ☐ professionally done and well maintained
- ☐ easy to read – simple logo, good white space, no more than 10 words, good color combinations
- ☐ hours/days of operation indicated

## Amenities:

- ☐ sufficient numbers of clean, accessible washrooms
- ☐ landscaping, curb appeal
- ☐ rest areas, meeting points and covered shelters
- ☐ food and drink sales provided
- ☐ safety and first aid

## Regulations:

- ☐ check legal restrictions limiting the type of operation
- ☐ know zoning and building regulations
- ☐ check health regulations with Regional Health Authority/Public Health Inspector
- ☐ obtain business licences
- ☐ check labeling guidelines with Canadian Food Inspection Agency (CFIA)
- ☐ know commodity regulations affecting the type of products produced/sold
- ☐ review signage regulations with Alberta Infrastructure
- ☐ obtain labor regulations such as: Worker's Compensation, Revenue Canada (GST and Income Tax), Canada Pension Plan and Employment Insurance
- ☐ arrange liability insurance

## References

*Direct Marketing – A Handbook For Farm Producers.* Canadian Farm Business Management Council and British Columbia Ministry of Agriculture, Fisheries and Food. 1994.

*Farmers' Markets in Alberta: A Direct Channel of Distribution.* AARI Report – #95CR16. Alberta Agriculture Food and Rural Development. July 1998.

*Direct Farm Marketing and Tourism Handbook.* University of Arizona Cooperative Extension. Arizona Department of Agriculture. 1995. Available on-line in Adobe Acrobat format at <http://ag.arizona.edu/AREC/dmkt/tabcontents>

*Sell What You Sow. The Grower's Guide to Successful Produce Marketing.* Gibson, Eric. New World Publishing. Auburn, California. 1994.

*Pricing Processed Food Products.* Ag-Strategies. Agdex 845-3. Alberta Agriculture Food and Rural Development. February 1999.

*Pricing Horticulture Products.* Ag-Strategies. Agdex 845-4. Alberta Agriculture Food and Rural Development. February 1999.

*Direct Marketing.* Business Management Series. Appropriate Technology Transfer for Rural Areas (ATTRA). Fayetteville, Arkansas. 1998.

## Resources

*Ag-Strategies* factsheet series – A series of factsheets is being developed to help producers and processors understand the key elements needed to manage a business. When this series is complete it will include a factsheet titled *Farm Direct Sales: Know the Regulations*.

*Ag-Alternatives* factsheet series – A series of six factsheets is being developed to help you evaluate the feasibility of new agricultural or rural based businesses. When the series is complete it will include:

- *Marketing: Will it Sell?*
- *Identifying Alternatives: What are the possibilities?*
- *Production: Can it be Done?*
- *Financial Feasibility: Can You Afford to do it?*
- *Profitability: Will it Make Money?*
- *Decision Making: Will You Start the New Enterprise?*

*How to Run A Farm Tour. Practical Guidelines for Those in the Agri-food Sector.* Ontario Farm Animal Council.

**For more information, contact your Rural Development Specialist – Business**

*Produce Handling for Direct Marketing.* Roadside Marketing Series. Northeast Regional Agricultural Engineering Service Cooperative Extension. 1992.

*Our Field. A Manual for Community Shared Agriculture.* Rowley, T. and Beeman, C. 1994.

*Shared Farming: Towards a Sustainable Community* (video). PFRA. 1992.

## Brochures – (Available from Alberta Agriculture Food and Rural Development district offices)

*Come to Our Farms – Where to Find Alberta Berry and Vegetable Farms.* Available annually from Alberta Market Gardeners Association at 1-800-661-AMGA (2642).

*Alberta Farmers' Markets.* Annual listing of markets, dates, times, locations, market contact phone number.

*Prairie Fruit Guide.* Your Alberta map to growers of Saskatoons and other fruits. Growers list, phone numbers, location, products, coming events.

## Websites

USDA Farmer Direct Marketing at:  
<http://www.ams.usda.gov/directmarketing/>

Farm Direct Marketing in BC at:  
<http://www.island.net/~awpb/emop/farmdir.html>

Appropriate Technology Transfer for Rural Areas at:  
<http://www.attra.org/attra-pub/dirmkt.html>

Massachusetts Department of Agriculture (info on direct marketing, mail order etc.) at:  
<http://www.massgrown.org>

## Associations

Pacific Northwest Farm Direct Marketing Association  
9535 Old Naches Hwy  
Naches, WA USA 98937

North American Farmers' Direct Marketing Association (NAFDMA)  
62 White Loaf Road  
Southampton, MA USA 01073  
Telephone: 1-888-884-9270  
website: <http://www.nafdma.com/index.htm>

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